Building trust and spurring growth through an Agenda of Better Governance

The crisis unveiled weaknesses in our national administrations, varying from our statistics, tax collection, the efficiency of public services, to the supervision on our banks. Such national governance deficiencies have spill-over effects for other Member States and affect the resilience of the EMU as a whole. We need to have confidence that every Member State adheres to the highest possible standards of governance. We may have followed different paths of institutional development, but we all share the objective of having high quality and effective public administrations to create jobs and growth.

Elements of good governance exist throughout EU policies, ranging from identifying independent fiscal institutions to improving national budgetary frameworks, to the EU Justice Scoreboard. We argue that we need a Better Governance Agenda to bring elements like these together and put them to work for growth and jobs. Not to transfer competences to a higher EU level, but to strengthen our sovereign governance at home and thereby buttressing the whole. Together we have to explore what is possible within the existing framework, including new initiatives. Benchmarking, peer pressure, political discussions and exchange of best practices could be tools. Not to judge or punish, but to acknowledge, address, learn and work together towards a higher common level.

1. What is Better Governance?

Better Governance is improving public institutions and services in the Member States to benefit the EMU as a whole. It's an Agenda by and for the Member States based on universal good governance principles, building upon work done by organizations like the OECD and the World Bank. Better Governance goes beyond the surface of ticking the boxes in implementation of E(M)U acquis, agreements and recommendations. It should be about excellent policy and service delivery and a professional attitude of all involved in this process.

The EU so far relied on a natural convergence to achieve similar governance standards. Many Member States have taken measures to improve their governance. However, this has proven to be insufficient and a more pro-active approach is needed. Member States need to focus more on the quality of national institutions, processes and policies, together as peers, to stimulate convergence to a higher level. This goes beyond EU policies, and includes the quality of those national policies, laws and institutions relevant to creating jobs and growth. To illustrate; principles that could be used, depending on the relevance to the respective policy area, are for example consistency, integrity, transparency, accountability, efficiency, (cost) effectiveness, responsiveness, non-discrimination, and reliability.

A Better Governance Agenda could touch upon issues as varied as efficient insolvency procedures, a reliable and efficient judiciary system, effective public procurement and cost effective and transparent public spending. It could include areas like effective tax collection, anti-corruption and transparent decision making processes. Moreover, consistent implementation and enforcement European legislation like internal market rules unlocks their full potential. And citizens requiring public services have the right to be treated in a proper manner in all Member States.

The mentioned examples are illustrative and non-exhaustive and Member States should assess the merit of addressing them and others within a Better Governance Agenda on a case by case basis. All of them require tailor made solutions. Nevertheless there are success stories that can be built upon within the EMU framework. Sound fiscal policy of euro area Member States is key for a well-functioning EMU. A sound fiscal framework reconciles sustainable public finances, macro-economic stabilization and effective allocation of public resources. Recognizing this crucial role of national governance, over the past period, Member States have had substantive discussions on the role of fiscal institutions, fiscal rules, medium-term budgetary frameworks and the demarcation of the distinctive roles of independent institutions and political parties. Agreement on the importance of strong independent fiscal institutions is one important outcome from this discussion. Independent fiscal institutions improve policy making by providing independent macroeconomic forecasts and assessments of the economic impact of measures, by bridging the gap between experts and policy makers and providing advice on fiscal policies to politicians and the broader public. Building on this, at the national level, an independent "Council for Economic Policy Assessment", can also be used to

make cost-benefit analysis of policy initiatives and reform measures, in order to promote that the correct policy response is implemented. In the Netherlands, the Bureau for Economic Policy Analysis (CPB) acts both as a fiscal watchdog and as a Council for Economic Policy Assessment.

2. The main reasons why Better Governance should be part of the Four Presidents' Report

a) Well-functioning public services are the foundations of a strong E(M)U. National administrations and lower levels of government are crucial for the implementation of the recommendations that follow from the SGP and the MIP, as well as correct and consistent implementation, application and enforcement of internal market rules. Proper implementation reduces spill over risks of macro-economic imbalances and increases EMU shock resilience. Moreover national systems are in the driver's seat for the bulk of macro- and micro-economic policies that at an aggregate level determine the fate of the EMU as a whole, and that form important determinants for the EU's investment climate. Without national governments functioning effectively, any future improvements in EMU governance at EU level will have limited effects.

b) The EMU needs public support to be sustainable and develop. The confidence of Member States, citizens, entrepreneurs and investors in the EMU can and has to be reinforced significantly. Better Governance will strengthen the confidence among Member States that European agreements will be respected. In addition, it will increase citizens' trust that they can rely on national decision makers to do what is right to address economic weaknesses. Finally, Better Governance will contribute to an environment in which entrepreneurs and investors can flourish. From this perspective, those aspects of Better Governance that most directly affect the functioning of EMU and of Member States within EMU would deserve priority in the coming years.

c) The importance of Better Governance for growth and jobs often remains underexposed, and its principles have often remained rather implicit. The theme has been neglected in the bigger EU policy debates. The added value of an agenda would consist of bringing together existing and new efforts and putting good governance at the forefront of political attention.

d) Better governance concerns a substantial number of member states, within the EU and the euro zone. Poor quality of governance and its implications appear throughout the EU. Higher growth, increased competitiveness, a better investment climate and heightened confidence of citizens, entrepreneurs and investors is to the benefit of all Member States. Better Governance is an issue for a substantial number of Member States. Twenty Member States received CSR's on governance in the European Semester. Most of the largest Member States are among those with the highest number of CSR's on internal market rules. This illustrates the cross cutting nature.

3. Convergence of quality, not transfer of competences

Better Governance is **not** about further transfer of competences. On the contrary, it needs to be a process of positive convergence relying on national responsibility for good governance. It provides an alternative that is fully in line with the principle of subsidiarity, to new EU competences at a time in which public and political support for further sharing of competences are low. Its success depends on the willingness of Member States and institutions to acknowledge the importance of the quality of national governance and address issues, while refraining from sanctions. Only then will convergence at a higher level among peers be attractive for all. The Agenda should stimulate Member States to strive for excellence in their governance to create optimal conditions for available talent and resources to reach their full potential.

Better Governance is also **not** an elaborate new framework with institutions. It should draw lessons from data and expertise mostly already available on the global, European and national levels.

4. How can we tackle Governance challenges?

Several Council formations could be included in development of a Better Governance Agenda (GAC, ECOFIN, COMPET, EPSCO). As first steps the Council could develop tailor-made European Better Governance guidelines, thereby selecting those principles most relevant to creating jobs, growth,

employment and confidence. The guidelines could serve as the agenda's basis and build on existing definitions, such as those used in e.g. the general EU requirements in this field (treaty, jurisprudence) and the work of the Council of Europe, UN, IMF, OECD and World Bank. The Council could in parallel invite the Commission and institutions like the OECD to reflect on improvement potential in Member States. Furthermore good governance elements in existing EU initiatives and programs would need to be identified and synergies between existing data and processes and networks would need to be found and used.

Discussions on Better Governance in Council formations could in the future be based on benchmarking and ranking of Member States, also using data from the OECD and the Council of Europe. Results of the discussions could feed into the Annual Growth Survey.

5. In conclusion

The Member States and institutions have always been committed to delivering high quality policies. However, it is implementation of those policies that is crucial for growth, jobs, employment and confidence. We need to be as interested in policy execution and delivery as we are in its initial development. Better Governance is the missing link between good intentions and good outcomes.

As a first step, The Netherlands proposes to have a debate in the Council on a Better Governance Agenda. Next steps can be developed in the light of the outcome of this debate and could be based upon the possibilities mentioned in this non-paper.

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